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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST NOVEMBER 14, 1985

Fall 1985 Regional Economic Survey

Our 19th semiannual survey of the region's bankers sheds additional light on the scope and magnitude of farm problems and their impact on lenders and rural communities. Among other topics, this survey tracks changes in land prices, farm liquidations, loan problems and bankers' views on economic prospects for 1986.

The survey also indicates that, in contrast to bankers in rural areas, Twin Cities bankers anticipate a continuation of relatively healthy economic conditions. Meanwhile, weak economic conditions are expected to linger in the northern portions of Minnesota and Wisconsin. Conducted in October, this survey drew responses from 950 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin.

Agricultural conditions

Tougher Times Ahead. Depressed crop prices, severe devaluation of land and machinery, heavy debt loads and uncertainty regarding government programs continue to plague the rural economy. Forty-five percent of the bankers classify current economic conditions as poor and 15 percent very poor. Another 36 percent rate local conditions as fair.

Some bankers describe agricultural conditions as equivalent to the Depression in the 1930s. The only difference is that farmers with little or no debt are making some money.

Economic conditions appeared the weakest in Iowa and Nebraska, with two-thirds to three-fourths of these bankers calling current conditions poor or very poor. Wisconsin and eastern North Dakota bankers were the most positive. About 60 percent of these bankers rated current economic conditions fair and another 10 percent good.

Bankers estimate that nearly 30 percent of their farm borrowers will have negative cash flow in 1985. Estimates ranged from a low of 10 percent or less for one-fourth of the bankers to a high of at least 45 percent for another one-fourth of the bankers. Bankers indicate that excellent crop yields have helped to take some of the sting out of depressed crop prices.

Bankers are braced for mounting problems. Forty-five percent of the agricultural lenders expect further deterioration in overall economic conditions during the next six months, while 52 percent anticipate little change. Bleak, grim and terrible were some of the terms used to describe the outlook for 1986. Depressed conditions are expected to persist for several years as considerable restructuring takes place in agriculture.

Bankers are worried about the domino effect on mainstreet business in rural communities. So far, mainstreet business failures have been at least as great as farm failures. Some bankers indicate that one-fourth of the mainstreet businesses could close during the next year.

Equity Disappearing. According to the region's bankers, cropland and pastureland prices are down more than 20 percent from a year ago. One-fourth of the banks reported declines of at least 30 percent while another one-fourth said land prices were down 15 percent or less. Nebraska, Iowa and Minnesota generally reported the largest declines. With cumulative declines in land values of about 65 percent since the early '80s, heavily indebted operators have frequently lost much or all of their equity in land.

At present, land prices are estimated to average about $1,150 per acre in Iowa, but considerable variation was evident. One-fourth of the Iowa bankers valued good cropland at $1,300 per acre or higher. In grain-producing areas of Minnesota, good cropland was pegged at $900 per acre. One-fourth of these bankers pegged land prices at $1,000 or more per acre. Farmland in Nebraska was valued at $730 per acre, with the upper quartile reporting land values in the $900 range.

Much of the pastureland in North Dakota and South Dakota fell in the $125 to $225 per acre range. Good cropland averaged about $400 per acre in these two states, varying from $200 per acre in western South Dakota to $650 per acre in eastern North Dakota.

Seventy percent of the bankers forecast continued downward movement in land values during the next 12 months as additional amounts of land come up for sale. However, some bankers felt investors would step in once the farm program was finalized, thereby slowing the rate of decline in land values.

Exit Rate Increasing. The number of farmers going out of business continues to rise. Bankers estimate that 3.1 percent of their customers quit farming during the past 12 months. Their estimates ranged from a low of 1 percent or less for one-fourth of the bankers to a high of at least 5 percent for another one-fourth of the bankers. They predicted that another 5 percent of their customers may discontinue operations during the next year.

Bankers indicated that about 65 percent of their farm borrowers are being given normal supervision, and presumably can survive these difficult times. The number of relatively strong accounts ranged as high as 80 percent

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Credit Conditions

Unless otherwise indicated, figures show percentage of bankers falling in each of the categories - higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. *What is your current* **loan-to-deposit** *ratio?*

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	57.5%	48.0%	58.0%	67.0%
Minnesota	62.2	55.0	63.0	70.0
North Dakota	51.7	42.0	50.0	61.5
South Dakota	53.5	42.0	54.0	64.8
Montana	64.6	54.0	66.5	74.8
Wisconsin	59.9	55.0	61.5	65.8
Iowa	53.6	45.0	54.0	63.0
Nebraska	64.1	50.3	65.5	75.0
Twin Cities Banks	65.5	56.5	64.5	72.4
N. Minn.-Wisc	62.4	56.0	64.0	70.0

2. **Loan-to-Deposit** *ratio higher or lower than desired?*

	Higher	Desired	Lower
All Ag Banks	15%	48%	37%
Minnesota	15	55	29
North Dakota	6	36	59
South Dakota	20	47	33
Montana	9	63	28
Wisconsin	14	31	55
Iowa	14	47	39
Nebraska	28	43	29
Twin Cities Banks	15	41	44
N. Minn.-Wisc.	4	47	49

3. **Typical interest rate** *charged for operating loans?*

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	13.2%	13.0%	13.3%	13.5%
Minnesota	13.4	13.0	13.5	13.6
North Dakota	13.1	12.8	13.0	13.5
South Dakota	13.3	13.0	13.5	13.8
Montana	13.0	12.5	13.0	13.5
Wisconsin	13.0	12.5	13.0	13.5
Iowa	13.2	13.0	13.3	13.5
Nebraska	13.2	13.0	13.0	13.5
Twin Cities Banks	12.3	11.5	12.0	13.0
N. Minn.-Wisc.	13.0	12.6	13.0	13.5

4. *Percentage change in* **loan volume** *during the* **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	0.0%	-5.0%	0.0%	5.0%
Minnesota	0.8	-3.8	0.0	6.0
North Dakota	-0.5	-4.3	0.0	4.0
South Dakota	-1.3	-7.0	0.0	4.5
Montana	0.5	-5.0	0.0	9.1
Wisconsin	2.1	-3.0	0.0	6.0
Iowa	-0.1	-5.0	0.0	5.0
Nebraska	-1.7	-6.7	0.0	1.1
Twin Cities Banks	5.5	0.0	1.0	10.0
N. Minn.-Wisc.	2.2	-0.5	2.0	7.0

5. *Anticipated* **loan growth** *during the* **next 12 months** *compared with past year?*

	Higher	Same	Lower
All Ag Banks	14%	54%	32%
Minnesota	14	56	31
North Dakota	23	57	20
South Dakota	6	62	31
Montana	16	47	38
Wisconsin	15	65	19
Iowa	14	52	33
Nebraska	11	46	43
Twin Cities Banks	33	60	8
N. Minn.-Wisc.	18	63	20

6. *Anticipated trend in* **loan-to-deposit ratio** *during* **next 12 months?**

	Higher	Same	Lower
All Ag Banks	16%	49%	35%
Minnesota	17	50	33
North Dakota	29	51	20
South Dakota	10	52	38
Montana	19	47	34
Wisconsin	25	48	27
Iowa	16	47	37
Nebraska	7	43	50
Twin Cities Banks	32	51	17
N. Minn.-Wisc.	16	63	22

7. *Percentage change in* **bank deposits** *during the past 12 months?*

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.0%	0.0%	3.0%	7.6%
Minnesota	4.4	0.0	5.0	8.2
North Dakota	3.9	0.0	5.0	9.0
South Dakota	2.9	0.0	3.0	8.0
Montana	1.5	0.0	2.5	5.8
Wisconsin	6.8	3.3	6.0	9.5
Iowa	1.8	-0.5	1.0	7.0
Nebraska	0.3	-5.0	0.0	5.0
Twin Cities Banks	8.1	5.0	7.0	11.7
N. Minn.-Wisc.	7.3	1.3	7.0	10.0

8. **Percentage** *of total loan portfolio that is* **farm loans?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	49.3%	30.0%	50.0%	70.0%
Minnesota	42.1	25.0	40.0	60.0
North Dakota	53.0	33.9	50.5	70.0
South Dakota	63.1	50.0	70.0	80.0
Montana	32.7	17.0	30.0	42.0
Wisconsin	34.8	17.0	30.5	51.5
Iowa	51.3	34.3	50.0	70.0
Nebraska	61.8	50.0	66.0	76.2
Twin Cities Banks	2.1	0.0	0.0	0.8
N. Minn.-Wisc.	6.2	0.0	1.0	10.3

9A. *Percentage of total* **loan portfolio** *that is* **nonperforming?**

	Survey Average	Response by percentile 25th	50th	75th
Twin Cities Banks	1.2%	0.0%	1.0%	1.5%
N. Minn.-Wisc.	2.7	0.5	1.7	3.0

9B. Percentage of **farm loans** that is **nonperforming?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	5.2%	1.0%	3.0%	7.5%
Minnesota	6.0	1.0	4.0	10.0
North Dakota	3.2	0.1	2.0	5.0
South Dakota	6.0	1.0	3.0	10.0
Montana	4.3	0.0	2.0	6.6
Wisconsin	4.3	0.6	2.5	7.3
Iowa	5.2	1.0	3.5	7.0
Nebraska	4.9	1.3	4.4	7.8

Business Conditions

10A. Current **market value** of good **cropland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	849	500	850	1100
Minnesota	841	700	800	1000
North Dakota	474	300	400	600
South Dakota	387	250	350	500
Montana	439	250	300	700
Wisconsin	679	500	700	825
Iowa	1149	1000	1200	1300
Nebraska	731	500	750	900

10B. Current **market value of pastureland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	314	175	300	400
Minnesota	333	200	300	400
North Dakota	167	125	150	200
South Dakota	188	125	175	250
Montana	142	75	100	100
Wisconsin	296	200	288	400
Iowa	428	300	400	500
Nebraska	217	100	175	300

11A. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 21.5%	– 30.0%	– 20.0%	– 15.0%
Minnesota	– 23.5	– 30.0	– 20.0	– 15.0
North Dakota	– 14.8	– 20.0	– 15.0	– 10.0
South Dakota	– 18.0	– 25.0	– 15.0	– 10.0
Montana	– 16.9	– 23.8	– 15.8	– 10.0
Wisconsin	– 15.3	– 20.0	– 15.0	– 10.0
Iowa	– 23.9	– 30.0	– 25.0	– 20.0
Nebraska	– 21.1	– 27.0	– 20.0	– 15.0

11B. Percentage **change** in **pastureland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 21.8%	– 30.0%	– 20.0%	– 10.0%
Minnesota	– 22.6	– 30.0	– 20.0	– 10.0
North Dakota	– 13.8	– 20.0	– 15.0	– 6.0
South Dakota	– 19.7	– 25.0	– 20.0	– 10.0
Montana	– 17.2	– 23.8	– 15.0	– 10.0
Wisconsin	– 14.7	– 20.0	– 10.0	– 10.0
Iowa	– 24.6	– 33.1	– 25.0	– 15.0
Nebraska	– 25.6	– 33.0	– 25.0	– 20.0

12. Anticipated trend in **land prices** during **next 12 months?**

	Increase	Stable	Decrease
All Ag Banks	1%	29%	70%
Minnesota	1	28	71
North Dakota	0	34	66
South Dakota	0	34	66
Montana	0	25	75
Wisconsin	0	48	52
Iowa	1	25	74
Nebraska	0	30	70

13. Are **capital expenditiures** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	17%	51%	32%
N. Minn.-Wisc.	16	41	43

14. Change expected in **capital outlays** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	15%	63%	22%
N. Minn.-Wisc.	6	57	37

15. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	24%	54%	22%
N. Minn.-Wisc.	20	61	20

16. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	76%	17%	7%
N. Minn.-Wisc.	56	36	8

17. Change expected in **consumer spending** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	27%	56%	17%
N. Minn.-Wisc.	10	66	24

18. Are **housing starts** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	63%	29%	7%
N. Minn.-Wisc.	24	33	43

19. Overall **economic conditions** in your area at the **present time?**

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	0%	4%	36%	45%	15%
Minnesota	0	7	34	42	17
North Dakota	0	4	51	39	6
South Dakota	0	4	42	40	14
Montana	0	0	38	50	13
Wisconsin	0	13	56	25	6
Iowa	0	2	31	50	16
Nebraska	0	1	24	54	21
Twin Cities Banks	0	78	20	2	0
N. Minn.-Wisc.	0	13	51	33	3

20. Anticipated trend in **economic conditions** during the **next six months?**

	Better	Same	Worse
All Ag Banks	2%	52%	45%
Minnesota	1	44	55
North Dakota	0	72	28
South Dakota	1	47	52
Montana	9	59	31
Wisconsin	0	67	33
Iowa	4	52	44
Nebraska	1	55	43
Twin Cities Banks	12	83	5
N. Minn.-Wisc.	12	70	18

21. Percentage of farm borrowers having **negative cash flow** in 1985?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	28.7%	10.0%	20.0%	45.0%
Minnesota	32.8	10.0	25.0	50.0
North Dakota	19.0	5.0	15.0	30.0
South Dakota	31.4	15.0	29.0	50.0
Montana	49.0	28.0	50.0	75.0
Wisconsin	19.4	5.0	15.0	29.0
Iowa	27.1	10.0	20.0	40.0
Nebraska	26.7	10.0	20.0	50.0

22. Percentage of farm customers that went **out of business** during the **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.1%	1.0%	2.0%	5.0%
Minnesota	3.7	1.0	2.0	5.0
North Dakota	2.3	0.4	1.3	3.0
South Dakota	3.0	0.1	1.5	5.0
Montana	1.4	0.0	0.1	1.8
Wisconsin	2.6	0.0	2.0	5.0
Iowa	3.1	1.0	2.0	5.0
Nebraska	3.2	1.0	2.0	5.0

23. Percentage of farm customers likely to **discontinue operating** during the **next 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	5.2%	2.0%	5.0%	7.0%
Minnesota	5.9	2.0	5.0	10.0
North Dakota	3.5	2.0	2.5	5.0
South Dakota	5.1	2.0	5.0	9.3
Montana	4.1	0.0	4.5	5.0
Wisconsin	3.6	1.0	2.5	5.0
Iowa	5.3	2.0	5.0	6.3
Nebraska	5.7	3.0	5.0	10.0

24A. Percentage of farm borrowers being given **normal supervision?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	65.5%	50.0%	70.0%	80.0%
Minnesota	64.9	50.0	70.0	80.0
North Dakota	71.9	60.5	75.0	85.0
South Dakota	65.0	50.0	70.0	80.0
Montana	70.3	52.3	78.0	90.0
Wisconsin	75.7	70.0	80.0	90.0
Iowa	63.5	50.0	65.0	80.0
Nebraska	61.0	50.0	60.0	80.0

24B. Percentage of farm borrowers identified as a **weak credit** and receiving **special attention?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	22.5%	10.0%	20.0%	30.0%
Minnesota	21.6	10.0	20.0	30.0
North Dakota	18.6	10.0	20.0	21.8
South Dakota	22.6	15.0	20.0	30.0
Montana	21.5	8.3	14.5	30.0
Wisconsin	14.4	7.0	13.0	20.0
Iowa	24.5	14.0	20.0	30.0
Nebraska	26.1	10.0	24.0	35.0

24C. Percentage of farm borrowers identified as a **very weak credit** with **potential for loss?**

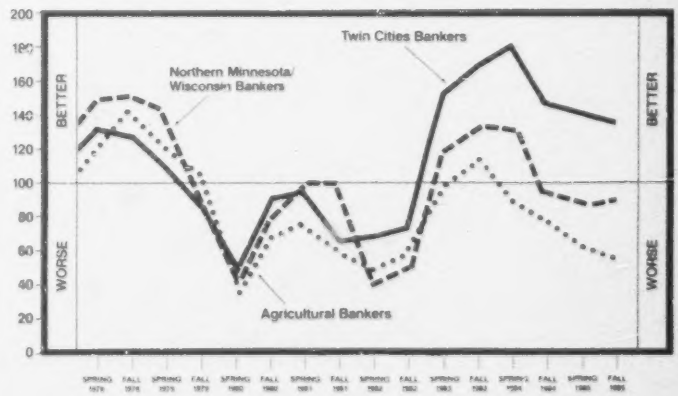
	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	8.9%	3.0%	6.0%	10.0%
Minnesota	10.2	4.0	8.0	15.0
North Dakota	7.1	2.0	5.0	10.0
South Dakota	8.9	2.0	7.0	11.0
Montana	5.6	0.0	5.0	10.0
Wisconsin	5.9	2.0	5.0	8.3
Iowa	9.0	4.0	7.0	10.0
Nebraska	9.1	4.3	10.0	11.5

24D. Percentage of farm borrowers for which **foreclosure or bankruptcy** is in progress or imminent?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.1%	0.0%	2.0%	5.0%
Minnesota	3.4	0.0	2.0	5.0
North Dakota	2.3	0.0	2.0	4.0
South Dakota	3.4	0.2	2.0	5.0
Montana	2.3	0.0	1.0	5.0
Wisconsin	3.1	0.8	2.0	5.0
Iowa	3.0	0.0	2.0	5.0
Nebraska	3.6	1.0	4.0	5.0

UPPER MIDWEST CONFIDENCE INDEX

Composite index of current conditions and bankers' appraisal of economic prospects during the next six months.



Survey (continued from page 1)

or more at one-fourth of the banks, to about 50 percent of less at another one-fourth of the banks.

On average, about 23 percent of farm borrowers were identified as weak credits receiving special attention. Another 9 percent were identified as very weak credits with potential for loss. The remaining 3 percent of farm borrowers were either involved in foreclosure or bankruptcy proceedings, or such actions were imminent. Farm debt tends to be concentrated in the hands of these troubled credits, spelling considerable losses for agricultural lenders.

Twin Cities economy

Relatively Healthy. Nearly 80 percent of the Twin Cities bankers rated current economic conditions good; another 20 percent called local conditions fair. These are slightly lower marks than six months ago. Auto sales and housing starts are up from a year ago, while general retail sales are about the same as last year's favorable level. However, capital outlays by businesses are weaker; one-third of the bankers reported declines from a year ago, double the number reporting increases.

As of September 1985, Twin Cities nonfarm wage and salary employment was 9.25 percent above the peak reached before the 1981-82 recession. This was a couple of percentage points better than the national average. However, Twin Cities employment growth has slowed from last year's rapid pace. Employment actually dropped in September and is now only 2.6 percent higher than a year ago. This more moderate pace is likely to continue during 1986.

After reaching a new peak in February, Twin Cities manufacturing employment has been heading downward and is currently 1.25 percent less than a year ago. Declines have been widespread, including layoffs in computer and electrical-machinery manufacturing. Rapid growth in the printing and publishing industry has also ceased, at least temporarily. Construction employment has held up fairly well, averaging 4.5 percent more than a year ago.

Despite signs of a maturing economic recovery, bankers were optimistic about the prospects for the next six to twelve months. About 83 percent of the bankers expect overall economic conditions to remain steady at current favorable levels, while 12 percent anticipate continued improvement. They forecast slightly stronger consumer spending, but continued sluggish capital outlays by business.

Northern Minnesota/ Wisconsin economy

Weakness Continues. One-third of the bankers characterize economic conditions as poor, 53 percent fair and 14 percent good. General retail sales are about the same as a year ago, while auto sales are stronger. Meanwhile, housing starts are worse than a year ago.

Capital spending by businesses is also weaker than a year ago, with further declines anticipated. Bankers also forecast somewhat weaker consumer spending during the next six months.

Seventy percent of the bankers anticipate little change in overall economic conditions during the next six months; only 12 percent forecast improvement. Some bankers noted success in attracting new businesses to their local communities. However, most bankers expect economic conditions to remain fair to poor during 1986. Restructuring of the economy in this part of the region is expected to extend over a number of years.

Credit conditions

Agricultural banks

Loan Demand Subsides. After rebounding in 1984, loan demand has leveled off. Bankers indicate that loan volume is unchanged from a year ago, but considerable variation was evident. One-fourth of the banks reported a decline of at least 5 percent, while another 25 percent had increases of at least 5 percent. The typical interest rate charged for farm operating loans averaged 13.2 percent in October, down from 13.9 percent six months ago.

Loan-to-deposit ratios averaged 57.5 percent, down counter-seasonally from April and nearly 4 percentage points less than a year ago. One-fourth of the banks had a ratio of 48 percent or less, while another one-fourth had a ratio of 67 percent or more. North Dakota, South Dakota and Iowa had ratios well below average, while Montana, Nebraska and Minnesota were notably above average. About 37 percent of all banks surveyed viewed their loan-to-deposit ratios as lower than desired, up from last spring but still lower than two years ago, when the figure was more than 50 percent.

Deposits at agricultural banks increased an average of only 3 percent from a year ago, continuing a downward trend in deposit growth that began several years ago. One-fourth of the banks reported no growth in deposits, while another one-fourth experienced deposit growth of 8 percent or more. Iowa and Nebraska banks reported the weakest deposit growth.

Bankers generally forecast continued declines in loan volume and loan-to-deposit ratios; the number of bankers anticipating declines outnumbered those expecting increases by two to one. Borrowers identified as weaker credits will find it more difficult to qualify for financing.

Nonperforming Farm Loans. Agricultural loans made up an average of 50 percent of all loans in the portfolios of the banks that responded to this survey. On average, 5.2 percent of these agricultural loans were nonperforming — either requiring interest concessions or not accruing any interest. One-fourth of the banks said that at least 7.5 percent of their farm loans were nonperforming, while another one-fourth said no more than 1 percent of their farm loans were nonperforming.

Tough times lie ahead for bankers and their customers as considerable restructuring takes place in agriculture. Figures presented earlier regarding the number of very weak credits with potential for loss (9 percent of all farm borrowers) suggest significant increases in nonperforming farm loans during 1986. With equity disappearing, considerable amounts of debt may have to be written off.

Twin Cities banks

Loan Demand Slows. In sharp contrast with the last three surveys, Twin Cities loan demand has slowed considerably during 1985. Total loans outstanding are up an average of 5.5 percent from a year ago; the median response showed only a 1 percent gain. This contrasts with a 14 percent jump reported last fall. One-fourth of the Twin Cities bankers reported increases of 10 percent or more, while another one-fourth reported no increase at best. Interest rates charged for operating loans averaged 12.3 percent in October, down 1 percentage point from last spring.

The average loan-to-deposit ratio declined slightly to 65.5 percent during October. One-fourth of the banks had a ratio of 56.2 percent or less, while another one-fourth had a ratio of 72.4 percent or more. Nearly 45 percent of the bankers viewed their ratios as lower than desired, up from one-third this past spring. (continued on page 6)

Survey *(continued)*

Deposits were up 8 percent from a year ago, also a smaller increase than in recent surveys. Deposits were up 5 percent or less at one-fourth of the banks, while they rose 12 percent or more at another one-fourth of the banks.

On average, 1.2 percent of all loans at Twin Cities banks were classified as nonperforming, unchanged from last spring. One-fourth of the banks said that none of their loans were nonperforming.

One-third of the Twin Cities bankers anticipated stronger loan growth during the next 12 months. Another 60 percent forecast little change in loan growth compared with the past year. Loan-to-deposit ratios were expected to remain relatively stable.

Northern Minnesota/ Wisconsin banks

Credit Weakness Persists. Loan volume is up an average of 2 percent from a year ago, a continued slackening from recent surveys. One-fourth of the banks reported declines in loan volume, while another one-fourth reported increases of 7 percent or more. Bankers predict little change in loan demand during the next 12 months.

Bank deposits were up an average of 7 percent from a year ago, slightly higher than last spring's figure. The upper quartile experienced increases of 10 percent or more, while the lower quartile reported increases of 1 percent or less.

Loan-to-deposit ratios averaged 62.4 percent, unchanged from last April. Half of the bankers viewed their ratio as lower than desired. Twenty-five percent of the banks had a ratio of 70 percent or more, while another 25 percent had a ratio of 56 percent or less.

On average, 2.7 percent of all loans at these banks were nonperforming. This figure was 0.5 percent or less at one-fourth of the banks. Another one-fourth said that at least 3 percent of their loans were nonperforming. Agricultural loans are a relatively small portion of total loan volume at banks in this part of the region, but they accounted for at least 10 percent of all loans at one-fourth of these banks. The typical interest rate charged for operating loans averaged 13 percent in October, down 0.8 points from April.

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Bankers' Views: *1986 Economic Prospects*

Iowa - *"As much, or more stress is being felt by mainstreet and agribusiness concerns as by the farmers."*

"If we can keep a program similar to where we are today, 80 percent of the farmers can survive."

"Surprising amount of interest in purchasing acquired property."

"More land will be put on market than we can handle. Downward pressure may accelerate."

"Good economic base outside ag will give our area some stability."

Minnesota - *"... lower income for the land owners will slow their spending habits, which will put more adverse pressure on local businesses."*

"Good operators are holding their own; the ones with too much debt can't get out fast enough."

"Unless we get a lot better prices for grain, we are going to lose another 10 to 20 percent of our farmers that are farming large numbers of acres."

"Our big problem is on mainstreet."

"We probably will lose 5 out of 25 businesses in the next 12 months."

Montana - *"Terrible and no prospect for improving."*

"Low commodity prices coupled with two years of drought have left the rural community in financial stress."

"Expect continued deterioration, although at a slower rate as adjustments are made."

Nebraska - *"Extremely high corn and edible bean yields will make this year breakeven, even though market prices are very low."*

"Expect nearly a 15 percent foreclosure rate in our trade area."

"While I expect to see some involvement from outside investors, lack of profitability will deter many from moving funds into land."

"The farm sector will continue to deteriorate as asset values and income decline. Impact will be especially hard on local farm communities."

North Dakota - *"Present cost-return ratio will lead to lower land values yet, which will eventually create a major disaster in rural America!"*

"1986 probably will be worse especially for real estate. Land prices will fall, although not nearly as fast."

"Present (farm) program has allowed strong credits to make money, while weaker credits continue to deteriorate."

"Business failure has been greater than farm failure, at this point."

South Dakota - *"1986 will have more farm bankruptcies and closed ag banks. This is a disaster."*

"(Expect) a great deal of adjustment to what farming can actually earn."

"Agriculture is weak...Other businesses (manufacturing) in the area are expanding and pushing the area's economy forward."

Wisconsin - *"Overall economic conditions will remain fair to good due to a strong industrial element in this area."*

"The dairy industry has only suffered this past 10 to 12 months."

"Expecting further deterioration in repayment ability and collateral values as milk price drops."

"Outlook is bleak, land values decreasing. No improvement foreseen within next 2 to 3 years."

Twin Cities - *"Continued strong outlook."*

"Very good. Expect reasonably good commercial and retail growth."

"Economic outlook will be about the same as '85."

"Steady to down slightly."

Northern Minnesota/Wisconsin - *"Our town established an enterprise zone which has attracted new businesses."*

"The Iron Range economy will remain static."

"Expect no increase in employment and a continued population loss creating even further downward pressure."

"Area is recreation and tourist oriented. Retailers report increases in all areas. Anticipate continued improvement in local retail and service volume."

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